

FINANCIAL STATEMENTS

**BELLE MEADE HOME OWNERS
ASSOCIATION, INC.**

Years Ended December 31, 2004 and 2003
with Independent Auditors' Report

FLYNN & COMPANY PSC, INC.
Certified Public Accountants

Belle Meade Home Owners
Association, Inc.

Financial Statements and
Other Financial Information

Years Ended December 31, 2004 and 2003

Contents

Independent Auditors' Report 1

Financial Statements

Balance Sheets 2
Statements of Revenues, Expenses and Changes in Fund Balance 3
Statements of Cash Flows..... 4
Notes to Financial Statements..... 5

Other Financial Information

Future Major Repairs and Replacements 9

Independent Auditors' Report

The Board of Trustees
Belle Meade Home Owners Association, Inc.

We have audited the accompanying balance sheets of Belle Meade Home Owners Association, Inc., as of December 31, 2004 and 2003, and the related statements of revenues, expenses and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Belle Meade Home Owners Association, Inc., as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on page 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Flynn & Company PSC, Inc.

April 26, 2005

Belle Meade Home Owners Association, Inc.
Balance Sheets
December 31, 2004 and 2003
(See Independent Auditors' Report)

	2004			2003
	Replacement Fund	Operating Fund	Total	Total
Assets				
Current Assets				
Cash	\$ 32,950	\$ 1,388	\$ 34,338	\$ 36,478
Certificate of deposit	<u>101,264</u>	<u>-</u>	<u>101,264</u>	<u>88,051</u>
Total Current Assets	134,214	1,388	135,602	124,529
Furniture, less \$2,096 of depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	\$ <u>134,214</u>	\$ <u>1,388</u>	\$ <u>135,602</u>	\$ <u>124,529</u>
Liabilities and Fund Balance				
Current Liabilities				
Deferred revenue	\$ -	\$ 7,294	\$ 7,294	\$ 7,294
Accounts payable	<u>-</u>	<u>2,412</u>	<u>2,412</u>	<u>3,276</u>
Total Current Liabilities	-	9,706	9,706	10,570
Fund Balance	<u>134,214</u>	<u>(8,318)</u>	<u>125,896</u>	<u>113,959</u>
Total Liabilities and Fund Balance	\$ <u>134,214</u>	\$ <u>1,388</u>	\$ <u>135,602</u>	\$ <u>124,529</u>

See Accompanying Notes

Belle Meade Home Owners Association, Inc.
Statements of Revenues, Expenses and Changes in Fund Balance
Years Ended December 31, 2004 and 2003
(See Independent Auditors' Report)

	2004			2003
	Replacement Fund	Operating Fund	Total	Total
Revenues				
Homeowners assessments	\$ 10,000	\$ 75,085	\$ 85,085	\$ 85,185
Interest income	3,858	-	3,858	2,651
Other income	<u>-</u>	<u>675</u>	<u>675</u>	<u>770</u>
Total Income	13,858	75,760	89,618	88,606
Expenses				
Maintenance and supplies:				
Landscaping	-	28,721	28,721	27,581
Building	-	1,015	1,015	7,058
Pool	-	12,898	12,898	11,266
Lake	-	2,791	2,791	2,381
Utilities	-	6,787	6,787	8,382
General insurance	-	4,596	4,596	4,327
Legal and audit	-	1,650	1,650	1,650
Postage, printing and supplies	-	653	653	151
Water and sewer	-	1,630	1,630	2,050
Federal and state income tax	-	954	954	350
Special project	-	15,889	15,889	19,962
Miscellaneous	<u>-</u>	<u>97</u>	<u>97</u>	<u>162</u>
Total Expenses	<u>-</u>	<u>77,681</u>	<u>77,681</u>	<u>85,320</u>
Net excess (deficit) of revenues over expenses	13,858	(1,921)	11,937	3,286
Fund Balance (Deficit)				
Beginning of year	120,356	(6,397)	113,959	110,673
Interfund transfer	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
End of year	\$ <u>134,214</u>	\$ <u>(8,318)</u>	\$ <u>125,896</u>	\$ <u>113,959</u>

See Accompanying Notes

Belle Meade Home Owners Association, Inc.
Statements of Cash Flows
Years Ended December 31, 2004 and 2003
(See Independent Auditors' Report)

	2004			2003
	Replacement Fund	Operating Fund	Total	Total
Cash Flows from Operating Activities				
Net excess (deficit) of revenues over expenses	\$ 13,858	\$ (1,921)	\$ 11,937	\$ 3,286
Adjustment for deferred revenue	-	-	-	7,294
Increase(decrease) in accounts payable	<u>-</u>	<u>(864)</u>	<u>-</u>	<u>3,276</u>
Net cash provided by operating activities	13,858	(2,785)	10,665	13,856
Cash beginning of year	120,356	4,173	124,529	110,673
Interfund transfer	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash end of year	\$ <u><u>134,214</u></u>	\$ <u><u>1,388</u></u>	\$ <u><u>135,602</u></u>	\$ <u><u>124,529</u></u>

Supplemental Disclosure of Cash Flow Information

Cash paid for income taxes:

2003: \$350
2004: \$954

See Accompanying Notes

Belle Meade Home Owners Association, Inc.
Notes to Financial Statements
December 31, 2004 and 2003
(See Independent Auditors' Report)

1. Significant Accounting Policies

Organization

The Association is responsible for the operation and maintenance of the common property of Belle Meade Home Owners Association, Inc. The complex consists of 221 completed homes located in Loveland, Ohio. The Association was incorporated in March 1991 as a non-profit Ohio corporation. The accompanying financial statements have been prepared on the accrual basis of accounting.

Fund Accounting

The Association's documents provide certain guidelines governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund

This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund

This fund is used to accumulate financial resources designated for future major repairs and replacements.

Member Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions and major repairs and replacements. The annual per unit assessment was \$385 in 2004 and 2003. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are sixty days or more delinquent. The Association retains excess assessments for future use.

Belle Meade Home Owners Association, Inc.
Notes to Financial Statements
December 31, 2004 and 2003
(See Independent Auditors' Report)

Cash and Cash Equivalents

For purposes of presenting the statements of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Property and Equipment

The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units. At December 31, 2004 and 2003, property not capitalized consists of a monument, pier, fencing, sprinkler system, gazebo, lake, parking area, pool and pool house. According to the Association's governing documents, two-thirds of all lot owners must approve disposition of any common real property. Property and equipment acquired by the Association are recorded at cost. Equipment on hand at December 31, 2004 and 2003 consists of pool furniture. Depreciation expense is computed on a straight-line basis over the useful lives of the assets. Maintenance repairs and minor renewals of properties are charged to expense as incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts from 2003 have been reclassified to conform to the 2004 presentation. These reclassifications have no effect on income or fund balance.

Belle Meade Home Owners Association, Inc.
Notes to Financial Statements
December 31, 2004 and 2003
(See Independent Auditors' Report)

2. Federal Income Tax

The Association provides for federal income tax in accordance with rules applicable to corporations under Section 528 (Homeowners' Association Taxation) of the Internal Revenue Code. Section 528 exempts net income arising from defined exempt function activities; however, it does assess federal income tax on income derived from nonexempt function activities. Exempt function income essentially consists of amounts received from the Association's members solely as a function of their membership in the Association. Nonexempt function income results primarily from revenue from nonmembers and investment income. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as interest earnings, at regular corporate rates. The Association elects to be taxed under Section 528 if the tax is less than the tax computed as a regular corporation, and all Section 528 qualifications have been met. For the year ended December 31, 2004 and 2003, the Association elected to be taxed under Section 528.

3. Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for major repairs and replacements. Accumulated funds, which were \$134,214 and \$120,356 at December 31, 2004 and 2003, respectively, are generally not available for operating purposes. It is the Association's policy that interest earned on such funds is retained in the Replacement Fund.

The Board of Trustees completed a study in 1998 to estimate the remaining useful lives and the replacement costs of the components of common property. The Association is funding such major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the Replacement Fund. Actual expenditures, however, may vary from the budgeted amounts and variations may be material, therefore, amounts accumulated in the Replacement Fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase the regular assessment or levy special assessments, or it may delay major repairs and replacements until funds are available.

4. Deferred Revenue

The Association received insurance claim proceeds of \$7,294 (total claim allowance is \$12,156) in 2003 for weather damage sustained on the Association's Gazebo. As of year-end, no repair expense had been incurred; the Association plans on contracting to have the repairs completed in 2004.

OTHER FINANCIAL INFORMATION

Belle Meade Home Owners Association, Inc.
Future Major Repairs and Replacements
December 31, 2004
(See Independent Auditor's Report)

The Board of Trustees completed a study in 1998 to estimate the remaining useful lives and replacement costs of the components of common property. The following table is based on the study:

<u>Components of Reserves</u>	<u>Estimated Years of Life</u>	<u>Estimated Replacement Cost</u>	<u>Estimated Remaining Years of Life</u>	<u>2004 Year-end Reserve Requirement</u>
Monument and pier	30	\$ 10,000	18	\$ 4,000
Lighting and signage	15	3,000	3	2,400
Front monument signs	10	4,500	8	900
Fencing	20	10,000	8	6,000
Fence painting	5	2,000	3	800
Sprinkler system	25	9,000	13	4,320
Gazebo	30	12,000	18	4,800
Lake fountain	10	6,000	5	3,000
Parking area:				
Sealcoating	6	1,375	0	1,375
Resurfacing	15	6,000	3	4,800
Playground	10	8,000	3	5,600
Pool House:				
Roof	20	5,000	8	3,000
Painting	4	4,500	2	2,250
Tuckpointing/Misc.	15	3,000	3	2,400
Bathroom/Interiors	5	10,000	0	10,000
Pool:				
Fence	20	6,000	8	3,600
Fence painting	4	1,000	2	500
Furniture	5	8,000	0	8,000
Equipment	15	12,500	3	10,000
Chemical/PH Regulators	10	8,000	7	2,400
Painting/Replacement	35	37,500	23	12,857
Concrete	35	13,650	23	4,680
Pool covers	10	4,000	5	2,000
Pool heater	5	3,000	0	3,000
Basketball hoop	10	<u>2,000</u>	5	<u>1,000</u>
Totals		\$ <u>190,025</u>		\$ 103,682
Replacement Fund Balance				<u>(134,214)</u>
Replacement Fund Reserve				\$ <u>(30,532)</u>